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BEFORE THE ARIZONA CORPORATION

Arizona Corporation Commission

COMMISSIONERS**DOCKETED**

BOB STUMP - Chairman
 GARY PIERCE
 BRENDA BURNS
 BOB BURNS
 SUSAN BITTER SMITH

APR 18 2014

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
 SANDARIO WATER COMPANY, INC. FOR A
 PERMANENT RATE INCREASE.

DOCKET NO. W-01831A-12-0392

IN THE MATTER OF THE APPLICATION OF
 SANDARIO WATER COMPANY, INC. FOR
 AUTHORITY TO INCUR LONG-TERM DEBT.

DOCKET NO. W-01831A-12-0467

ORDER Decision No. **74444**

Open Meeting
 April 8 and 9, 2014
 Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the
 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT**PROCEDURAL HISTORY**

1. On August 31, 2012, Sandario Water Company, Inc. ("Sandario" or "Company"),
 filed an application with the Commission for a permanent rate increase and on September 10, 2012,
 the Company filed an amendment to the Rate Application (collectively, the "Rate Application").
 Sandario attached a copy of the notice sent to customers on August 31, 2012, advising them of the
 pending Rate Application. No customers filed comments in response to the notice.

2. On October 1, 2012, the Commission's Utilities Division ("Staff") filed its Sufficiency
 Letter, stating the Rate Application met the requirements of Arizona Administrative Code ("A.A.C.")
 R14-2-103 and classifying Sandario as a Class D utility.

1 3. On November 14, 2012, the Company filed an application for authority to obtain a
2 \$633,000 loan from the Water Infrastructure Finance Authority of Arizona ("WIFA") to construct
3 system upgrades ("Finance Application"). The Company proposed to generate the funds necessary to
4 meet the debt service on the loan through imposition of a customer surcharge.

5 4. On December 13, 2012, Staff filed a Request for Extension of Time in the Rate
6 Application docket asking to extend the deadline for filing its Staff Report from December 17, 2012,
7 to January 4, 2013. Staff stated the Company did not object to the extension.

8 5. A Procedural Order was docketed December 19, 2012, granting Staff's extension
9 request and suspending the time clock for the Rate Application.

10 6. On January 4, 2013, Staff issued its Staff Report for the Rate Application,
11 recommending approval of Staff's proposed rates and charges, subject to certain conditions.

12 7. On January 14, 2013, Sandario submitted its Response to the Staff Report Dated
13 January 4, 2013, objecting to certain recommendations and attaching supporting schedules.

14 8. Staff docketed a Supplemental Staff Report on March 7, 2013, addressing the
15 Company's Response and providing revised schedules.

16 9. On March 18, 2012, Sandario filed its Response to the Supplemental Staff Report,
17 reiterating its objections to some of Staff's recommendations and attached several updated schedules.

18 10. On April 10, 2013, Staff docketed its Staff Report in the Finance Application docket.
19 Staff recommended denial of the Finance Application because the Company lacked sufficient cash
20 flow to meet the debt service coverage on the requested loan. Staff noted that the Commission can
21 only approve a customer surcharge in connection with a rate case.

22 11. On April 17, 2013, Procedural Orders were filed in both dockets setting a procedural
23 conference in the two matters for April 30, 2013, to discuss possible consolidation of the dockets and
24 other procedural issues.

25 12. On April 26, 2013, Sandario filed its Comments Regarding Staff Report for the
26 Finance Application, objecting to Staff's denial recommendation and other conclusions stated in the
27 Staff Report.

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1 13. During the April 30, 2013, procedural conference, the parties agreed that no one
2 would be prejudiced by consolidation of the Rate Application and Finance Application and requested
3 that the two dockets be joined. The parties stated they did not believe a hearing was necessary and
4 discussed procedural issues and filing deadlines.

5 14. The Rate Application and Finance Application were consolidated in a Procedural
6 Order docketed on May 2, 2013. The Procedural Order provided a form of public notice for the
7 consolidated Rate and Finance Applications (collectively, the "Application") to be provided to the
8 Company's customers.

9 15. On May 9, 2013, Sandario docketed an Affidavit of Mailing, stating that the form of
10 notice for the consolidated Application was mailed to customers on May 3, 2013.

11 16. Staff filed a Revised Staff Report on May 24, 2013, for the consolidated matters. Staff
12 recommended approval of a rate increase using Staff's recommended rates and charges. Staff also
13 recommended approval of a WIFA loan in the amount of \$587,650, subject to certain terms and
14 conditions, as well as a surcharge to cover the debt service on the WIFA loan.

15 17. On June 10, 2013, Sandario filed its Response to the Revised Staff Report objecting to
16 a number of Staff's recommendations and providing additional supporting schedules.

17 18. On June 14, 2013, a Procedural Order was issued directing Staff to file a reply to the
18 Company's Response to the Revised Staff Report by July 8, 2013, addressing the issues and concerns
19 raised by the Company, and for Sandario to file any additional comments by July 22, 2013.

20 19. Staff filed its Reply on July 8, 2013, and Sandario docketed its Surreply to the Revised
21 Staff Report on July 22, 2013, again challenging Staff's conclusions and recommendations.

22 20. Pursuant to a Procedural Order docketed July 30, 2013, a Procedural Conference was
23 held on August 7, 2013, to address the parties' concerns raised in their filings. The parties stated that
24 they would meet to discuss a possible solution to the disputed issues and would docket a notice
25 stating which issues, if any, remained unresolved, along with the parties' respective final schedules.

21. On September 16, 2013, Sandario docketed a Notice of Partial Settlement, outlining the issues that the parties had resolved and explaining the remaining disputes. Although there were unresolved issues, Sandario stated that it did not believe a hearing was necessary.

22. Staff submitted its Final Schedules on September 18, 2013, but did not submit additional testimony regarding Staff's revised schedules. Certain information contained in the schedules was unclear or erroneous.

23. On October 29, 2013, Sandario docketed a Statement Re: Impact of Partial Settlement on Positions in Rate Case. The filing contained statements that conflicted with information contained earlier filings, raising questions about the Company's final position on some issues.

24. On November 21, 2013, a Procedural Order was docketed directing the parties to clarify their positions on certain issues and to correct errors contained in their most recent filings.

25. On December 11, 2013, Staff filed its Fifth Supplement to Staff Report Issued on January 4, 2013, and Sandario filed its Response to Staff's Fifth Supplemental Report on January 8, 2014.

BACKGROUND

26. Sandario is an Arizona S corporation engaged in the business of providing water service to approximately 330 customers in Pima County, located 22 miles northwest of the City of Tucson. The Commission granted the Certificate of Convenience and Necessity (“CC&N”) now held by Sandario in Decision No. 40510 (February 16, 1970).¹

27. According to Staff, Sandario's water system is comprised of two active well sites yielding approximately 430 gallons of water per minute, five storage tanks with a combined 68,000-gallon capacity, four pressure tanks, three bladder tanks, five booster pumps at three booster pump stations and the distribution system. Staff concluded that the Company presently has adequate production and storage capacity to support the existing customer base and reasonable growth.

1 Prior to Decision No. 40510, the Commission had approved an Order Preliminary to issuance of a CC&N to Allan D. Shadron d/b/a Pine Meadows Water Company in Decision No. 39583 (July 22, 1968). In Decision No. 48048 (June 29, 1977), the Commission approved the Company's transfer and name change to Ezra Lewis d/b/a Sandario Water Company. On June 21, 1989, the Commission approved the transfer of the Company to Sandario Water Company, Inc. in Decision No. 56523. According to Corporation Division public records, the Company is currently held by The Lewis Family Trust.

28. Sandario is located within the Arizona Department of Water Resources ("ADWR") Tucson Active Management Area ("AMA"). An ADWR compliance status report dated September 7, 2012, indicated that the Company is in compliance with ADWR requirements governing water providers and/or community water systems.

29. An Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report dated October 19, 2012, indicated that there are no major deficiencies and ADEQ determined that the Company's system is in compliance with ADEQ regulations and currently is delivering water that meets the water quality standards required by 40 CFR 141 and A.A.C., Title 18, Chapter 4.

30. Sandario has Commission-approved Backflow and Curtailment Tariffs.

31. Staff stated that Sandario has no outstanding compliance issues, is in good standing with the Commission's Corporation Division, and is current on its property tax and sales tax. Staff stated that there was one customer complaint filed against the Company in 2013 regarding quality of service/water pressure, which has been resolved and closed. No customers submitted comments regarding the consolidated Application.

RATE APPLICATION

Summary

32. The Commission approved Sandario's current rates and charges in Decision No. 58992 (February 24, 1995). Sandario states that it is seeking the current rate increase because its revenues have decreased with customers' declining water use levels, and the Company is facing increased expenses associated with an aging infrastructure.

33. In its test year ended December 31, 2012, Sandario reported revenues from metered water sales of \$110,856 and \$2,147 from other water revenues, for total test year operating revenues of \$113,003. In its Application, the Company claimed adjusted test year operating expenses of \$118,480, resulting in an operating loss of \$5,477. In its Response to Staff's Fifth Supplemental Report, the Company proposed an original cost rate base of \$28,220, which is the same as its fair value rate base ("FVRB").² Sandario proposes to increase revenues generated from base rates by

² The Company did not provide reconstruction cost new less depreciation rate base data.

1 \$57,257, or 50.67 percent, from \$113,003 to \$170,260. The Company projected *pro forma* operating
 2 expenses of \$129,053, for operating income of \$41,207, a 146.02 percent rate of return on rate base,
 3 and a 24.20 percent operating margin. In addition to its base rate proposals, the Company requested
 4 implementation of a customer surcharge to collect an additional \$44,461 to meet the debt service on
 5 the requested WIFA loan ("WIFA Surcharge"), for a total revenue requirement of \$214,721.³

6 34. Staff adopted Sandario's proposed test year operating revenues of \$113,003. In its
 7 Fifth Supplemental Staff Report, Staff recommended adjusted test year operating expenses of
 8 \$128,480, producing a test year operating loss of \$15,477. Staff's rate base adjustments resulted in a
 9 negative \$49,219 FVRB. Staff recommended a \$51,757 revenue increase generated from base rates,
 10 or 45.80 percent, from \$113,003 to \$164,760. The recommended operating expenses of \$130,685
 11 created operating income of \$34,075, for no return on the negative rate base of \$49,219, and a 20.68
 12 percent operating margin. Staff also proposed a WIFA Surcharge to collect an additional \$44,461 to
 13 meet the debt service on the requested WIFA loan, for a total revenue requirement of \$209,221.⁴

14 35. The WIFA Surcharges are detailed in the Finance Application discussion.

15 36. In the Notice of Partial Settlement filed by Sandario on September 16, 2013, the
 16 Company stated the parties had reached an agreement regarding income tax recovery for the S
 17 corporation, the loan authorization amount, and the date by which the project must be completed.

18 37. The unresolved issues are the FVRB, contributions in aid of construction ("CIAC")
 19 amortization, depreciation expense, revenues, rate design, the adoption of Best Management Practices
 20 ("BMPs") and the generation of sufficient funds to cover WIFA's debt service reserve requirement
 21 ("DSRF").⁵

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³ Response to Fifth Supplemental Report, Final Schedule 3.

26 ⁴ Fifth Supplemental Staff Report, Updated Final Schedule BCA-1.

27 ⁵ After approximately the first six months of principal and interest payments on the WIFA loan, WIFA may require
 28 borrowers to pay over five years an additional amount equal to 20 percent of the loan. WIFA holds the money in a debt
 service reserve fund in case the borrower defaults on the loan, in which event WIFA may apply the funds held in reserve
 to missed debt service payments.

Rate Base

38. The parties' final FVRB positions follow:

	COMPANY⁶	STAFF⁷
<u>Plant in Service:</u>		
Gross Plant in Service	\$ 917,442	\$ 917,442
Less: Accumulated Depreciation	(633,274)	(633,274)
Net Plant in Service	284,168	284,168
<u>Deductions:</u>		
CIAC	356,257	356,257
Less: CIAC Amortization	202,449	125,010
Net CIAC	153,808	231,247
Customer Deposits	\$ 8,628	\$ 8,628
AIAC	<u>105,287</u>	<u>105,287</u>
Total Deductions:	\$ 267,723	\$ 345,162
<u>Additions:</u>		
Working Capital	<u>\$ 11,775</u>	<u>\$ 11,775</u>
TOTAL FVRB	<u>\$ 28,220</u>	<u>(\$ 49,219)</u>

39. The Company objects to Staff's \$77,439 adjustment to the accumulated amortization of CIAC. Sandario notes that the correct amortization rate from the last rate case was five percent, not the 5.05 percent CIAC amortization rate Staff adopted in its Updated Final Schedules. However, the Company contends that the use of either amortization rate negatively affects Sandario's rate base by artificially depressing the rate base long after the plant is fully depreciated. According to the Company, the mismatch between the amortization rate for converted CIAC and depreciation can be corrected by using an accelerated amortization rate that takes into account the years for which CIAC was still treated as advances in aid of construction ("AIAC")—when it was not being amortized, but was being depreciated. Sandario proposes the adoption of a five percent amortization rate for pure CIAC (contributions that were never treated as advances) and application of a ten percent amortization rate for AIAC converted to CIAC beginning on the date of the conversion.⁸

⁶ Response to Fifth Supplemental Report, Final Schedule 1.

⁷ Fifth Supplemental Staff Report, Updated Final Schedule BCA-2, page 1.

⁸ Response to January 4, 2013, Staff Report, pages 2 – 4.

1 40. Sandario stated that although its proposed \$28,220 FVRB is not sufficient to set the
2 revenue requirement using a rate of return in this case, adoption of its proposed CIAC amortization
3 could result in a high enough rate base in its next rate case to permit the use of a rate of return
4 methodology. The Company contended that Staff's CIAC amortization treatment results in negative
5 rate base, a weak balance sheet and a financially unviable utility without resulting in lower rates for
6 customers, while Sandario's proposal results in positive rate base, does not increase rates at this time
7 and it will not hinder future investment.⁹

8 41. Sandario disputed Staff's argument that the mismatch is appropriate because it
9 benefits the customers through lower rates, insisting that the mismatch is detrimental to the customers
10 over the long-term because the Company's rate base will be so artificially low there will be no reason
11 for the Company to invest in the system. Sandario argued that should an owner make a capital
12 contribution for system improvements, this investment could be lost because of the negative rate
13 base: "Simply stated, the rate base is on the verge of becoming so low that any investment will be a
14 waste of money. This position makes no sense if Staff wants the owners to invest in the water
15 company."¹⁰

16 42. Staff opposes Sandario's proposal to apply an accelerated CIAC amortization
17 methodology to CIAC that was not fully amortized at the end of the test year against depreciation
18 expense.¹¹ Staff explains that the Company's proposal appears simple, but it may create volatile
19 swings in depreciation expense and, if this occurs in a rate case test year, it can be either damaging or
20 advantageous depending on whether you are the Company or ratepayer. Staff believes that CIAC
21 amortization should be calculated using straight line depreciation rates for the plant associated with
22 the CIAC and notes that Staff's usual procedure is to amortize CIAC at the composite depreciation
23 rate based on all of the Company's depreciable plant. Staff recommends this approach, asserting it is
24 fair to both the Company and ratepayers.¹²

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27 ⁹ *Id.*, page 3.

¹⁰ Surreply to the May 24, 2013, Revised Staff Report, page 4.

¹¹ March 7, 2013, Supplemental Staff Report.

¹² May 24, 2013, Revised Staff Report, page 5.

1 43. We do not agree with Sandario's assertion that the CIAC amortization rate should take
2 into account the years that the plant was considered AIAC and not being amortized, yet was being
3 depreciated. Rate base represents the dollars invested by the owners. AIAC and CIAC are non-
4 investor funds and until the Company repays those funds, they are properly excluded from rate
5 base. Plant that was built using AIAC becomes an investment by the owners only if, and when, the
6 Company refunds the AIAC. Plant that was built using CIAC (or with funds converted from AIAC
7 to CIAC) only becomes an investment by the owners if, and when, the Company forgoes recovery of
8 depreciation expense that it otherwise would have received had the amortization of CIAC not been
9 used as an offset to depreciation expense in a rate case. Since the owners did not refund the AIAC
10 that was subsequently converted to CIAC, it is improper to amortize CIAC retroactively.
11 Amortization of CIAC should begin in the year it is converted to CIAC, and the unamortized balance,
12 which represents funds received from ratepayers or another non-investor source, should continue to
13 be excluded from rate base until repaid.

14 44. Sandario argues that Staff's CIAC amortization results in a negative rate base, giving
15 the Company no reason to invest further since additional investment will not increase its operating
16 income. We do not believe this argument recognizes Sandario's duties and responsibilities as a
17 public service corporation to manage its capital structure and maintain a sound financial position,
18 while providing the facilities necessary to provide safe, adequate and sufficient service. Use of
19 equity capital to fund plant is integral to fulfilling these duties, and our expectation is that the
20 Company will uphold its responsibilities. Sandario has benefitted from a disproportionate use of non-
21 investor funds to finance its utility plant, and it is now planning to finance its proposed construction
22 project exclusively with debt. Since rate base represents the owners' investment in a utility, a
23 negative rate base, by definition, reflects an absence of investment by utility owners. In this
24 circumstance, there is no investment upon which to earn a return, and there are no capital costs to be
25 paid. By setting rates using cash flow calculations, Sandario is effectively earning a return on an
26 investment it has not made. As a result, ratepayers are effectively funding plant investment that the
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Company has failed to make in its system by being required to pay rates established by a cash flow methodology.

45. The proper CIAC amortization rate to apply for test year purposes is that adopted in the prior rate case. Although Decision No. 58992 did not break down the rate base or revenue requirement components, the Decision adopted Staff's rates and charges. Staff's depreciation schedules in that case indicate a composite rate of five percent was used for both depreciation of plant and amortization of CIAC; therefore, five percent is the correct CIAC amortization rate for the years following the rate increase through the test year.¹³ Calculating the accumulated amortization of CIAC using the authorized five percent composite rate results in a test year accumulated CIAC amortization of \$123,791, for a test year net CIAC balance of \$232,466.

46. Based on our discussion, we find that Sandario's FVRB is a negative \$50,438 using the following balances:

Plant in Service:

Gross Plant in Service	\$ 917,442
Less: Accumulated Depreciation	(633,274)
Net Plant in Service	284,168

Deductions:

CIAC	356,257
Less: CIAC Amortization	123,791
Net CIAC	232,466

Customer Deposits	\$ 8,628
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AIAC	105,287
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Total Deductions:	\$ 267,723
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Additions:

Working Capital	\$ 11,775
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TOTAL FVRB	<u>(\$50,438)</u>
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¹³ In Decision No. 58992, the Commission adopted Staff's recommended rates and charges. (Page 5.) In the Staff Report for that rate case, Staff's Adjustments to Operating Expenses stated on Schedule 3, page 2, adjustment H, notes: "Amortization of CIAC - 5%," as well as a five percent composite rate for depreciation expense.

1 **Operating Income**

2 47. Sandario and Staff agree on adjusted test year metered water revenue of \$110,856 and
3 other water revenues of \$2,147, for total test year operating revenue of \$113,003.

4 48. In its Application, the Company proposed test year operating expenses of \$118,480
5 compared to Staff's \$128,480 recommendation. Staff's adjustments included a \$1,325 increase to
6 water testing expense and a \$1,022 decrease to property tax expense. The remaining disagreement
7 between Staff and Sandario regarding test year operating expenses relates to the calculation of
8 depreciation expense.

9 49. In its Application, Sandario did not request recovery of net depreciation expense since
10 the Company's accelerated CIAC amortization exceeded the amount of depreciation expense
11 reflected on its books during the test year. Staff disagreed with Sandario's approach and adjusted the
12 Company's depreciation expense from zero to \$9,697.

13 50. As its final position, the Company proposed a depreciation expense of \$1,653,
14 reflecting gross depreciation of \$27,781, less CIAC amortization of \$26,128. Based on our
15 discussion of CIAC amortization, we do not agree with the Company's proposed depreciation
16 expense of \$1,653. However, Sandario correctly noted that Staff had an error in its recordation and
17 depreciation calculations related to the retirement of a storage tank. As such, the depreciation
18 expense in Account No. 330.1 is \$412 as proposed by the Company, and not \$323 as proposed by
19 Staff, and the Company's gross depreciation expense of \$27,781 is correct.¹⁴

20 51. We find that, after removal of \$17,922 in *pro forma* amortized CIAC, the correct *pro*
21 *forma* depreciation expense is \$9,859.

22 52. Given the foregoing, we find Sandario had a test year operating loss of \$15,639, based
23 on total operating revenue of \$113,003 and total adjusted operating expenses of \$128,642.

24 **Revenue Requirement**

25 53. Both Staff and the Company determined their proposed revenue requirements using
26 cash flow calculations. Sandario asserted its FVRB, though positive, was too low to calculate
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28 ¹⁴ Response to Fifth Supplemental Staff Report, Final Schedule 4.

1 revenues based on rate of return methodology. Staff used the cash flow methodology because it was
2 recommending a negative rate base.

3 54. Sandario proposes to increase base rate revenues by \$57,257, or 50.67 percent, from
4 \$113,003 to \$170,260. The Company projects operating expenses of \$129,053, for operating income
5 of \$41,207, a 146.02 percent rate of return on a rate base of \$28,220, and a 24.20 percent operating
6 margin. This equates to a debt service coverage ratio ("DSC") of 1.14.¹⁵

7 55. Staff recommends a \$51,757 revenue increase generated from base rates, or 45.80
8 percent, from \$113,003 to \$164,760. The recommended operating expenses of \$130,685 create an
9 operating income of \$34,075, for no return on the negative rate base of \$49,219, a 20.68 percent
10 operating margin and a DSC of 1.01.

11 56. The parties' base rate revenue proposals result in cash flows as follows:

	<u>SANDARIO</u>	<u>STAFF</u>
13 Operating Income	\$41,207	\$34,075
14 Plus: Depreciation Expense	\$1,653	\$9,697
15 Less: AIAC & Meter Refunds	<u>\$1,901</u>	<u>\$1,901</u>
16 Actual Cash Flow	\$40,959	\$41,871

17 57. We agree with the parties that the use of cash flow to determine revenue
18 requirement is warranted, but this method must be applied cautiously. A small or negative rate
19 base is indicative of a utility owner's minimal investment in the company and any earnings
20 should correspond to this minimal investment. When cash flow calculations must be used in lieu
21 of rate base/rate of return methodology to determine adequate revenues, the goal is to support the
22 provision of adequate, safe and reliable service for ratepayers, not to ensure a return for owners.
23 Nevertheless, owners are the obvious and immediate beneficiaries of any additional revenues.
24 Therefore, cash flow should allow a reasonable amount for contingencies but should not exceed
25 the revenue that theoretically might be generated by setting rates based on rate of return.

26 ¹⁵ DSC ratio represents the number of times internally generated cash will cover required principal and interest payments
27 on short-term and long-term debt. A DSC of greater than 1.0 indicates that cash flow from operations is sufficient to
28 cover expected debt service. A DSC of less than 1.0 means that debt service obligations cannot be met by cash generated
from operations and that another source of funds is necessary to preclude default on the debt obligation. Generally, Staff
considers 1.2 as the minimum DSC for a WIFA loan due to debt service reserve funding requirements.

1 Providing overly generous returns to investors via cash flow calculations rewards a lower
 2 shareholder investment with a higher return, and does little to compel owner investment in the
 3 utility.¹⁶

4 58. This is Sandario's first rate application in 18 years and we must be cognizant of rate
 5 shock that would be experienced due to a significant, and sudden, increase in rates. If the Company
 6 had filed for rate increases more frequently, it might have saved money to apply toward capital
 7 improvements that could have improved its rate base. We also note that the entire cost of the
 8 proposed construction project will be covered by the WIFA loan; Sandario is not contributing any
 9 capital for project costs. To meet the debt service on the WIFA loan, the parties propose to further
 10 increase rates through implementation of a WIFA Surcharge. As a comparison, we observe that the
 11 Company's proposed operating income (without the WIFA Surcharge) of \$41,207 would be
 12 sufficient to provide a 12 percent rate of return on a \$343,391 FVRB. Staff's recommended
 13 operating income of \$34,075 (also without the WIFA Surcharge) would be sufficient to provide a 12
 14 percent rate of return on a \$283,958 FVRB.

15 59. Given the circumstances, we believe both Sandario's and Staff's proposed base rate
 16 revenues would unfairly burden ratepayers and we decline to adopt them.

17 60. We find that the appropriate base rate revenue for Sandario is \$147,786, which is a
 18 30.78 percent increase over test year revenues. The flow-through of property tax and income tax
 19 expenses¹⁷ from increased revenues results in operating expenses of \$131,592, and an operating
 20 income of \$16,194, provides the Company with a 10.96 percent operating margin from base rates
 21 alone, and creates \$24,152 in cash flow. We find these base rates are just and reasonable, provide
 22 adequate funds for reasonable contingencies and, when combined with the revenues generated by an
 23 approved WIFA Surcharge, will cover all financial obligations.

24 ¹⁶ See Decision No. 74037 (August 16, 2013), page 20.

25 ¹⁷ Initially, neither Sandario nor Staff proposed an income tax expense for the test year. However, given the
 26 Commission's decision to allow an income tax expense for Arizona S corporations, the Company ultimately proposed an
 27 income tax amount of \$7,599, on a going-forward basis based on its requested revenues generated from base rates,
 28 whereas Staff recommended \$1,187. The Company objected, claiming that the Arizona Corporate Income Tax rate is
 6.968 percent as opposed to Staff's 6.5 percent. Pursuant to A.R.S. § 43-1111, the Arizona Corporate Income Tax Rate
 was 6.968 percent in 2012 and is 6.5 percent in 2013. The appropriate income tax rate is the enacted rate for the period
 the rates are to be in effect. Since this statute provides a known and measurable change in the tax rate, 6.5 percent is the
 correct rate to use going forward.

1 **Rate Design**

2 61. During the test year, the Company served approximately 330 customers. Average and
3 median usages on the 5/8-inch x 3/4-inch meters during the test year were 8,675 and 5,115 gallons
4 per month, respectively.

5 62. The rates for the Company at present, as proposed by the Company, and as
6 recommended by Staff, not including the WIFA Surcharge are as follows:

	Present Rates	Company Proposed ¹⁸	Staff Recommended ¹⁹
<u>MONTHLY CUSTOMER CHARGES:</u>			
<u>(All Classes)</u>			
5/8 x 3/4-Inch Meter	\$ 13.00	\$ 20.00	\$ 15.00
3/4-Inch Meter	15.00	30.00	21.75
1-Inch Meter	25.00	50.00	36.25
1-1/2-Inch Meter	40.00	100.00	72.50
2-Inch Meter	90.00	160.00	116.00
3-Inch Meter	125.00	320.00	232.00
4-Inch Meter	175.00	500.00	362.00
6-Inch Meter	240.00	1,000.00	725.00
<u>Gallons Included:</u>	1,000	0	0
<u>COMMODITY RATES:</u>			
<u>(Per 1,000 Gallons)</u>			
<u>All Meter Sizes:</u>			
All usage over 1,000 gallons	\$1.85	N/A	N/A
0 to 3,000 gallons	N/A	\$1.10	\$1.25
3,001 to 9,000 gallons	N/A	2.32	2.75
Over 9,000 gallons	N/A	3.53	4.01
<u>Bulk Water:</u>			
All usage	\$1.85	\$3.53	\$4.01

23 63. Under the Company's proposed rates and charges, customers on a 5/8 x 3/4-inch
24 meter, using an average of 8,675 gallons per month, without the WIFA Surcharge, would experience
25 an increase of \$8.97 per month, from \$27.20 to \$36.17 or 32.97 percent. Customers with a median
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27 ¹⁸ Response to Fifth Supplemental Report, Final Schedule 7.

28 ¹⁹ Fifth Supplemental Staff Report, Updated Final Schedule BCA-4.

1 use of 5,115 gallons per month would experience an increase of \$7.29 per month, from \$20.61 to
2 \$27.91, or 35.39 percent.

3 64. Under Staff's proposed rates and charges, customers on a 5/8 x 3/4-inch meter, using
4 an average of 8,675 gallons per month, without the WIFA Surcharge, would experience an increase
5 of \$7.16 per month, from \$27.20 to \$34.36 or 26.32 percent. Customers with a median use of 5,115
6 gallons per month would experience an increase of \$3.95 per month, from \$20.61 to \$24.57, or 19.18
7 percent.

8 65. The Company notes Staff's rate design generates approximately 38 percent of its
9 revenues from monthly usage charges, seven percent from first tier commodity charges, 19 percent
10 from the second tier, and 35 percent from the third tier. Sandario argues that not enough revenue is
11 generated by Staff's recommended monthly usage charge and first tier, and relies too heavily on the
12 second and third tier for the remaining revenue. The Company asserts its rate design generates
13 approximately 50 percent of its revenues from monthly usage charges, six percent from first tier
14 commodity charges, 15 percent from second tier, and 29 percent from the third tier and claims this
15 will provide the Company with rate stability.²⁰

16 Alternative Rate Design

17 66. We agree with Sandario that a greater percentage of the revenue increase should be
18 allocated to the monthly usage charge in order to provide the Company with a more stable revenue
19 stream. The alternative rate design outlined below results in approximately 49 percent of the
20 recommended revenues generated by the monthly usage charge, seven percent from first tier
21 commodity charges, 17 percent from second tier, and 27 percent from the third tier.

22 67. We find that the following base rate design promotes revenue stability and water
23 conservation and that it is just and reasonable:

24 MONTHLY USAGE CHARGES:

25 All Classes

26 5/8 x 3/4-Inch Meter	\$ 17.00
3/4-Inch Meter	26.00
27 1-Inch Meter	43.00

28 ²⁰ Response to Fifth Supplemental Report, page 4; Final Schedule 6.

1	1-1/2- Inch Meter	85.00
1	2-Inch Meter	136.00
2	3-Inch Meter	272.00
2	4-Inch Meter	425.00
3	6-Inch Meter	850.00

COMMODITY CHARGES:
(Per 1,000 gallons; All Classes)

All Meter Sizes:

5	0 to 3,000 gallons	\$ 1.10
6	3,001 to 9,000 gallons	2.25
7	Over 9,000 gallons	2.75

Bulk Water (No Minimum): \$ 2.75

68. Under the approved rates, customers on a 5/8 x 3/4-inch meter, using an average of 8,675 gallons per month, without the WIFA Surcharge, will experience an increase of \$5.87 per month, from \$27.20 to \$33.07 or 21.58 percent. Customers with a median use of 5,115 gallons per month will experience an increase of \$4.45 per month, from \$20.61 to \$25.06, or 21.57 percent.

69. The Company's Service Charges and Service Line and Meter Installation Charges at present, as proposed by the Company, and as recommended by Staff follow:

SERVICE CHARGES:

	<u>Present Charges</u>	<u>Proposed Charges</u>	<u>Staff Recommended</u>
Establishment	\$15.00	\$25.00	\$25.00
Establishment (After Hours)	25.00	N/A	N/A
Reconnection (Delinquent)	15.00	\$30.00	\$30.00
After Hours Service Charge	N/A	30.00	30.00
Meter Test (If Correct)	\$50.00	50.00	50.00
Meter Re-Read (If Correct)	15.00	20.00	20.00
Deposit	*	*	*
Deposit Interest (Per Year)	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	\$15.00	\$25.00	\$25.00
Deferred Payment (Per Month)	1.50%	1.50%	1.50%
Late Payment Charge (Per Month)	1.50%	1.50%	1.50%

* Pursuant to A.A.C. R14-2-403(B)(7).

** Months off system times the monthly minimum pursuant to Commission Rule A.A.C. R14-2-403(D).

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SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable Pursuant to A.A.C. R14-2-405)

	<u>Present</u>	<u>Company Proposed</u>			<u>Staff Recommended</u>		
	<u>Total</u>	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
5/8 x 3/4-Inch Meter	\$ 200.00	\$ 430.00	\$130.00	\$ 560.00	\$ 430.00	\$130.00	\$ 560.00
3/4-Inch Meter	240.00	430.00	230.00	660.00	430.00	230.00	660.00
1-Inch Meter	260.00	480.00	290.00	770.00	480.00	290.00	770.00
1 1/2-Inch Meter	350.00	535.00	500.00	1,035.00	535.00	500.00	1,035.00
2-Inch Turbine Meter	425.00	815.00	1,020.00	1,835.00	815.00	1,020.00	1,835.00
2-Inch Compound Meter	N/A	815.00	1,865.00	2,680.00	815.00	1,865.00	2,680.00
3-Inch Turbine Meter	750.00	1,030.00	1,645.00	2,675.00	1,030.00	1,645.00	2,675.00
3-Inch Compound Meter	N/A	1,150.00	2,520.00	3,670.00	1,150.00	2,520.00	3,670.00
4-Inch Turbine Meter	960.00	1,460.00	2,620.00	4,080.00	1,460.00	2,620.00	4,080.00
4-Inch Compound Meter	N/A	1,640.00	3,595.00	5,235.00	1,640.00	3,595.00	5,235.00
6-Inch Turbine Meter	1,700.00	2,180.00	4,975.00	7,155.00	2,180.00	4,975.00	7,155.00
6-Inch Compound Meter	N/A	2,300.00	6,870.00	9,170.00	2,300.00	6,870.00	9,170.00

70. The charges recommended by the parties are reasonable and will be adopted.

71. Staff recommended that the Company file with the Commission a schedule of its approved rates and charges within 30 days of the effective date of this Decision.

72. Staff also recommended that the Company adopt the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category as set forth in Exhibit A attached to this Decision.²¹

73. We will require Sandario to notify its customers of the authorized rates and charges and their effective date by means of either an insert in its next regularly scheduled billing or by a separate mailing, in a form acceptable to Staff.

74. We believe it is reasonable to authorize Sandario to collect from its customers a proportionate share of any privilege, sales or use tax as provided for in A.A.C. R-14-2-409(D).

Best Management Practices

75. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at

²¹ Exhibit A, Column 3, reflects a composite depreciation rate approved in Decision No. 58992 as 4.5 percent. However, in Decision No. 58992, the Commission adopted Staff's recommended rates and charges. (Page 5.) In the Staff Report for that rate case, Staff's Adjustments to Operating Expenses, Schedule 3, page 2, adjustment H, notes: "Composite Rate Allowed - 5%."

1 <http://www.azcc.gov/Divisions/Utilities/forms.asp>. Staff states that the Company may request
2 recovery of the actual costs associated with the implementation of these BMPs in its next general rate
3 case application.

4 76. Sandario objects to Staff's BMP recommendations. The Company argues that it is
5 located within the Tucson AMA and is already subject to ADWR's BMP regulations. The Company
6 asserts that implementation of additional BMP's is administratively burdensome and will result in
7 additional expense. Sandario also notes that the Commission has rejected BMP requirements for
8 another water company within the Tucson AMA.²²

9 77. Because Sandario is located within ADWR's Tucson AMA and subject to ADWR's
10 BMP requirements, we will not require the Company to adopt additional BMPs.

11 **Miscellaneous**

12 78. Staff noted that during the test year Sandario reported that it sold more water than it
13 pumped, calling into question the validity of the water usage data. Sandario contended that the water
14 use data was skewed due to issues with a malfunctioning well meter and system flushing.

15 79. Staff recommends that the Company be required to coordinate the reading of the well
16 meters with the reading of its customer meters on a monthly basis and report this information in its
17 Annual Reports to the Commission's Utilities Division.

18 80. Staff also recommends the Company closely monitor and record water used for system
19 flushing, fire related purposes, construction, etc., and be prepared to provide records that support the
20 amount of water used for these authorized purposes.

21 81. Staff further recommends that the Company monitor its water system closely and
22 ensure that annual water loss is below 10 percent. If the reported water loss is greater than 10
23 percent, Sandario should prepare a report containing a detailed analysis and plan to reduce water loss
24 to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to
25 less than 10 percent, the Company should submit a detailed cost/benefit analysis to support its
26 opinion. In no case should the Company allow water loss to be greater than 15 percent. The water
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28 ²² Decision No. 74804 (September 23, 2013).

1 loss reduction report or the detailed analysis, whichever is submitted, should be filed with Docket
2 Control as a compliance item in this docket within 24 months of the effective date of this Decision.

3 82. Staff noted that the Company's Well No. 1 (DWR #55-603405) had been demolished
4 and replaced by Well No. 3, but Sandario was still reporting Well No. 1 in its Annual Report. Staff
5 recommended that in its future Annual Reports, the Company remove Well No. 1 from its utility
6 plant in service.

7 83. We find that Staff's recommendations are reasonable and we will adopt them.

8 84. Because an allowance for property tax expense of the Company is included in its rates
9 and will be collected from its customers, the Commission seeks assurances from the Company that
10 any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has
11 come to the Commission's attention that a number of water companies have been unwilling or unable
12 to fulfill their obligations to pay the taxes that were collected from ratepayers, some for as many as
13 20 years. It is reasonable, therefore, that as a preventive measure, the Company shall annually file, as
14 part of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current
15 in paying its property taxes in Arizona.

16 FINANCE APPLICATION

17 Project And Debt Authorization

18 85. Sandario's Finance Application sought Commission approval of a \$633,450 loan from
19 WIFA to purchase and install a 100,000 gallon storage tank and associated electrical equipment and
20 upgrades at Well Site No. 3. Staff noted there is potential for significant growth in the area served by
21 Well No. 3 and adding storage in this area will improve service and benefit customers. Staff
22 reviewed the Company's proposed improvements and concluded that they are appropriate, but Staff
23 made no determination that the proposed projects are used and useful and stated that no particular
24 treatment for rate base or rate-making purposes should be inferred.

25 86. Staff reviewed the opinion of probable cost for the projects and removed \$45,800 from
26 the projected costs for the storage tank and related improvements, recommending that the
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1 Commission should authorize a WIFA loan in the amount of \$587,650.²³ In the Notice of Partial
2 Settlement, Sandario stated that it accepted Staff's proposed loan amount.²⁴

3 87. We find that Staff's recommended loan amount of \$587,650 is reasonable.

4 **WIFA Surcharge**

5 88. Sandario does not have a sufficient cash flow from base rate revenues alone to meet all
6 of its financial obligations plus the debt service on a fully-drawn loan. To provide the additional
7 revenues necessary to support the WIFA loan, the parties propose implementing a WIFA Surcharge.

8 89. The Company's Final Schedule 8 reflects a WIFA Surcharge that includes enough
9 money to cover principal, interest and the DSRF, for total annual WIFA payments of \$53,353.
10 Sandario noted, however, that its other Final Schedules are calculated based on a WIFA Surcharge
11 covering only the principal and interest due to recent cases regarding the treatment of DSRF in WIFA
12 Surcharge collections as a regulatory liability.²⁵

13 90. Staff recommended only the principal and interest should be included in the WIFA
14 Surcharge, explaining that Staff did not include the DSRF cost in the WIFA Surcharge calculations
15 because it is not a cost of debt and because Staff believes its recommendations will provide adequate
16 cash flow for the Company, even after subtracting the DSRF amount.²⁶ In the alternative, Staff
17 recommends that, if the WIFA Surcharge is included in the DSRF, the portion of collections
18 specifically related to the DSRF should be considered as a regulatory liability and any funds related
19 to incremental income and property taxes should be treated as revenue.²⁷

20 91. Sandario and Staff agree that the annual principal on the WIFA loan is \$18,630, the
21 interest is \$25,831 and the associated DSRF is \$8,892. Although Staff recognizes that incremental
22 property and income taxes would be incurred, its \$44,461 annual WIFA Surcharge does not provide
23 for their recovery.

24 92. We accept the parties' decision not to include the DSRF in the WIFA Surcharge
25 calculation; however, Sandario will incur incremental income and property taxes due to the treatment

26 ²³ Reply to Response to July 8, 2013, Revised Staff Report, pages 1 – 2, 4.

27 ²⁴ September 16, 2013, Notice of Partial Settlement, page 2.

²⁵ Response to Fifth Supplemental Report, page 5; footnote 2, page 6.

²⁶ Reply to Response to July 8, 2013, Revised Staff Report, pages 2 – 3.

28 ²⁷ Fifth Supplemental Staff Report, page 3.

1 of the WIFA Surcharge collections as revenues for ratemaking purposes, and they should be included
2 in the WIFA Surcharge, not the base rates.

3 93. Accordingly, we adopt an annual WIFA Surcharge amount of \$49,301, subject to the
4 actual amount of the WIFA loan at closing. Below are the cash flows including the approximate
5 WIFA Surcharge as proposed by the Company and Staff, and the cash flow based on the adopted
6 base rate revenues and WIFA Surcharge:

	<u>SANDARIO</u>	<u>STAFF</u>	<u>ADOPTED</u>
7 Operating Revenue	214,721	209,221	197,087
9 Operating Expenses	133,091	138,938	136,691
10 Operating Income	\$81,630	\$70,283	\$60,396
11 Plus: Depreciation Expense	\$1,653	\$9,697	\$9,859
12 Less: AIAC & Meter Refunds	(\$1,901)	(\$1,901)	(\$1,901)
13 Less: Principal Repayment	(\$18,630)	(\$18,630)	(\$18,630)
14 Less: Interest	(\$25,831)	(\$25,831)	(\$25,831)
15 Less: Debt Service Reserve	<u>(\$8,892)</u>	<u>(\$8,892)</u>	<u>(\$8,892)</u>
16 Actual Cash Flow	\$28,030	\$24,726	\$15,001
17 DSC	2.12	1.99	1.72
18 Operating Margin	38.02	33.59	30.64

19 94. Based on the Company's and Staff's annual WIFA Surcharge of \$44,461, the WIFA
20 Surcharge for a customer on a 5/8 x 3/4-inch meter would be approximately \$10.66 per month.²⁸

21 95. Because we have also included in the WIFA Surcharge the associated incremental
22 property and income taxes, the WIFA Surcharge for a customer on a 5/8 x 3/4-inch meter will be
23 approximately \$11.82 per month. Applying this estimated WIFA Surcharge to the adopted base
24 rates, a residential customer on a 5/8 x 3/4-inch meter with average water use will experience a total
25 increase of \$17.69 per month, or 65.05 percent, from \$27.20 to \$44.89, and with median water use,
26 by a total of \$16.27, or 78.93 percent, from \$20.61 to \$36.88.

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28 ²⁸ Based on Sandario's calculations, if the DSRF is included in the WIFA Surcharge, the WIFA Surcharge amount would be approximately \$12.79 per month for a customer using a 5/8 x 3/4-inch meter. (Sandario Final Schedule 8.)

1 96. Based on the specific circumstances of this case, and subject to approval of the final
2 WIFA Surcharge calculations and other terms and conditions discussed below, we find that the
3 issuance of a \$587,650 loan from WIFA for a term of 20 years, at an interest rate not to exceed that
4 available from WIFA, for the purposes of constructing the proposed improvements outlined in the
5 Finance Application, is 1) within Sandario's corporate powers; 2) is compatible with the public
6 interest; 3) compatible with sound financial practices; 4) compatible with Sandario's proper
7 performance of service as a public service corporation; and 5) will not impair the Company's ability
8 to provide service.

9 **Additional Recommendations**

10 97. Staff made the following additional recommendations regarding the loan
11 authorization:

- 12 a) The actual amount of the WIFA Surcharge should be calculated based upon the final
13 amount of the WIFA loan and the actual number of customers at the time of closing.
- 14 b) Sandario should file as a compliance item in this Docket, within 30 days of the
15 execution of any financing transaction authorized herein, a notice confirming that such
16 execution has occurred and a certification by an authorized Company representative
17 that the terms of the financing fully comply with the authorization granted.
- 18 c) Sandario should provide to Staff, upon request, a copy of any loan documents
19 executed pursuant to the authorization granted herein.
- 20 d) Upon filing of the loan closing notice, Sandario may file in this Docket an application
21 requesting implementation of the WIFA Surcharge.
- 22 e) Within 30 days of the filing of a WIFA Surcharge implementation request, Staff shall
23 calculate the appropriate WIFA Surcharge and prepare and file a recommended order
24 for Commission consideration.
- 25 f) Upon Commission approval the WIFA Surcharge, Sandario shall open a separate
26 interest-bearing account into which all WIFA Surcharge monies collected from
27 customers will be deposited.

- 1 g) The only disbursements of funds from this account will be to make debt service
2 payments to WIFA.
- 3 h) Sandario must file by April 15th of each year, as a compliance item in this docket, a
4 report reconciling all WIFA Surcharge monies billed and collected, along with copies
5 of the prior year's monthly bank statements for the WIFA Surcharge Account.
- 6 i) Approval of the loan and WIFA Surcharge should be rescinded if the Company has
7 not drawn funds for the storage tank installation within 30 months of the effective date
8 of this Decision.
- 9 j) Sandario must file with Docket Control, as a compliance item in this docket, within 30
10 months of the effective date of this Decision, a copy of the ADEQ Certificate of
11 Approval of Construction ("AOC") for the 100,000 gallon storage tank.
- 12 k) Sandario must file a rate application with the Commission no later than April 30,
13 2018, using a December 31, 2017, test year.

14 98. We find Staff's recommendations are reasonable and should be adopted, with the
15 following modifications:

- 16 a) The actual amount of the WIFA Surcharge to be calculated based upon the final
17 amount of the WIFA loan and an accurate customer count and meter sizes at closing.
- 18 b) Approval of the WIFA loan and WIFA Surcharge shall be rescinded if the Company
19 has not drawn funds for the storage tank installation within 30 months of the effective
20 date of this Decision, and the Company shall refund all WIFA Surcharge funds
21 collected from customers.
- 22 c) Disbursement of funds from the WIFA Surcharge Account may also be made for
23 payment of the associated property taxes and income taxes.
- 24 d) Sandario shall file the copies of the WIFA Surcharge bank statements with the
25 Commission's Utilities Division, rather than with Docket Control. In the WIFA
26 Surcharge Report filed with Docket Control, the Company shall include a statement
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averring that Sandario filed the required bank statements with the Commission's Utilities Division.

99. We also believe it is reasonable to require that, in the same mailing sent to its customers advising them of the authorized rates and charges and their effective date, Sandario shall also include information generally explaining the WIFA Surcharge, the approximate date that the WIFA Surcharge is expected to go into effect, and the estimated WIFA Surcharge amount.

CONCLUSIONS OF LAW

1. Sandario is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Sandario and of the subject matter of the Rate Application and the Finance Application.

3. Notice of the Applications was provided in the manner prescribed by Arizona law.

4. Based on the evidence presented, Sandario's FVRB is (\$50,438).

5. Subject to Commission approval of the final WIFA Surcharge amount, the approved rates and charges are just and reasonable and in the public interest.

6. Subject to Commission approval of the final WIFA Surcharge amount, the approved financing is within Sandario's corporate powers, is compatible with the public interest, compatible with sound financial practices, compatible with Sandario's proper performance of service as a public service corporation, and will not impair the Company's ability to provide service.

7. The authorized financing is for the purposes stated in the Finance Application, as approved in this Decision, is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

8. Under the circumstances, the authorized rates, charges and conditions of service are just and reasonable and should be approved without a hearing.

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ORDER

IT IS THEREFORE ORDERED that Sandario Water Company, Inc. shall file with Docket Control, as a compliance item in this docket, by April 30, 2014, revised tariffs setting forth the following rates and charges:

MONTHLY USAGE CHARGES:**All Classes**

5/8 x 3/4-Inch Meter	\$ 17.00
3/4-Inch Meter	26.00
1-Inch Meter	43.00
1-1/2-Inch Meter	85.00
2-Inch Meter	136.00
3-Inch Meter	272.00
4-Inch Meter	425.00
6-Inch Meter	850.00

COMMODITY CHARGES:
(Per 1,000 gallons; All Classes)**All Meter Sizes:**

0 to 3,000 gallons	\$ 1.10
3,001 to 9,000 gallons	2.25
Over 9,000 gallons	2.75

Bulk Water (No Minimum): \$ 2.75**SERVICE CHARGES:**

Establishment	\$25.00
Reconnection (Delinquent)	30.00
After Hours Service Charge	30.00
Meter Test (If Correct)	50.00
Meter Re-Read (If Correct)	20.00
NSF Check	25.00
Deposit	*
Deposit Interest (Per Year)	*
Re-Establishment (Within 12 Months)	**
Deferred Payment (Per Month)	1.50%
Late Payment Charge (Per Month)	1.50%

* Pursuant to A.A.C. R14-2-403(B)(7).

** Months off system times the monthly minimum pursuant to Commission Rule A.A.C. R14-2-403(D).

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable Pursuant to A.A.C. R14-2-405)

	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
	<u>Charges</u>	<u>Charges</u>	<u>Charges</u>
5/8 x 3/4-Inch Meter	\$ 430.00	\$130.00	\$ 560.00
3/4-Inch Meter	430.00	230.00	660.00
1-Inch Meter	480.00	290.00	770.00
1 1/2-Inch Meter	535.00	500.00	1,035.00
2-Inch Turbine Meter	815.00	1,020.00	1,835.00
2-Inch Compound Meter	815.00	1,865.00	2,680.00
3-Inch Turbine Meter	1,030.00	1,645.00	2,675.00
3-Inch Compound Meter	1,150.00	2,520.00	3,670.00
4-Inch Turbine Meter	1,460.00	2,620.00	4,080.00
4-Inch Compound Meter	1,640.00	3,595.00	5,235.00
6-Inch Turbine Meter	2,180.00	4,975.00	7,155.00
6-Inch Compound Meter	2,300.00	6,870.00	9,170.00

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after May 1, 2014.

IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges, Sandario Water Company, Inc. is authorized to collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.C.C. R14-2-409(D).

IT IS FURTHER ORDERED that Sandario Water Company, Inc. is authorized to charge a WIFA Surcharge to become effective at a date and time and in a manner as subsequently authorized by the Commission.

IT IS FURTHER ORDERED that Sandario Water Company, Inc. shall notify customers of the authorized rates and charges and their effective date, as well as information generally explaining the WIFA Surcharge, the approximate date that the WIFA Surcharge is expected to go into effect, and the estimated WIFA Surcharge amount, by means of either an insert in its next regularly scheduled billing or by a separate mailing, in a form acceptable to Staff.

IT IS FURTHER ORDERED that Sandario Water Company, Inc. is hereby authorized to obtain a 20-year amortizing loan in an amount not to exceed \$587,650, and at an interest rate not to exceed that which is available from WIFA, to finance the improvements described in the Finance Application.

1 IT IS FURTHER ORDERED that the loan authorization is expressly contingent upon
2 Sandario Water Company, Inc.'s use of the proceeds for the purposes stated in the Finance
3 Application and as approved in this Decision.

4 IT IS FURTHER ORDERED that Sandario Water Company, Inc. is authorized to engage in
5 any transactions and to execute any documents necessary to effectuate the granted authorizations.

6 IT IS FURTHER ORDERED that Sandario Water Company, Inc. may pledge its Arizona
7 assets for purposes of the WIFA loan, pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104.

8 IT IS FURTHER ORDERED that approval of the financing does not constitute or imply
9 approval or disapproval by the Commission of any particular expenditure of the proceeds for
10 purposes of establishing just and reasonable rates.

11 IT IS FURTHER ORDERED that Sandario Water Company, Inc. shall, within 30 days of
12 closing, file with Docket Control, as a compliance item in this docket, an Affidavit of Closing
13 averring that the terms in the loan documents conform to the terms and conditions of this Decision.
14 Upon the Commission's Utilities Division Request, Sandario Water Company, Inc. shall provide
15 copies of the final loan documents as required.

16 IT IS FURTHER ORDERED that Sandario Water Company, Inc. shall file an application
17 with Docket Control requesting implementation of a WIFA Surcharge simultaneously with the
18 Affidavit of Closing.

19 IT IS FURTHER ORDERED that within 30 days after Sandario Water Company, Inc. files its
20 application to implement the WIFA Surcharge, the Commission's Utilities Division shall calculate
21 the WIFA Surcharge based on the final WIFA loan amount and accurate customer counts and meter
22 sizes at the time of closing, shall prepare a schedule reflecting the amount of the WIFA Surcharge
23 and shall prepare and file a recommended order regarding the WIFA Surcharge for Commission
24 consideration.

25 IT IS FURTHER ORDERED that upon final Commission approval of the WIFA Surcharge,
26 Sandario Water Company, Inc. shall open an interest-bearing account into which all WIFA Surcharge
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1 funds collected from customers pursuant to that Decision will be deposited; no other funds may be
2 placed into this account.

3 IT IS FURTHER ORDERED that the only disbursement of funds from this account will be to
4 make debt service payments to WIFA as required in the loan documents, and to pay the associated
5 property taxes and income taxes.

6 IT IS FURTHER ORDERED that Sandario Water Company, Inc. shall file with Docket
7 Control by April 15th of each year, as a compliance item in this docket, a WIFA Surcharge Report
8 reconciling all WIFA Surcharge funds billed, collected and disbursed, and shall simultaneously
9 provide copies of the WIFA Surcharge Account bank statements to the Commission's Utilities
10 Division. The WIFA Surcharge Report shall contain a statement averring that the Company has
11 provided the bank statements to the Commission's Utilities Division as required.

12 IT IS FURTHER ORDERED that the granted debt authorization shall terminate 30 months
13 from the effective date of this Decision. If Sandario Water Company, Inc. has not drawn the loan
14 funds for the project approved in this Decision by that time, the WIFA Surcharge granted subsequent
15 to this Decision will be rescinded and Sandario Water Company, Inc. shall refund all WIFA
16 Surcharge funds collected from customers.

17 IT IS FURTHER ORDERED that Sandario Water Company, Inc. shall file with Docket
18 Control, as a compliance item in this docket, within 30 months of the effective date of this Decision,
19 a copy of the ADEQ Approval of Construction for the storage tank.

20 IT IS FURTHER ORDERED that Sandario Water Company, Inc. shall use the depreciation
21 rates by individual NARUC category set forth in the attached Exhibit A, on a going-forward basis.

22 IT IS FURTHER ORDERED that Sandario Water Company, Inc. shall file a rate application
23 no later than April 30, 2018, using a December 31, 2017, test year.

24 IT IS FURTHER ORDERED that in its future Annual Reports filed with the Commission's
25 Utilities Division, Sandario Water Company, Inc. shall no longer report its Well No. 1 (DWR #55-
26 603405) in plant description.

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IT IS FURTHER ORDERED that Sandario Water Company, Inc. shall annually file as part of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

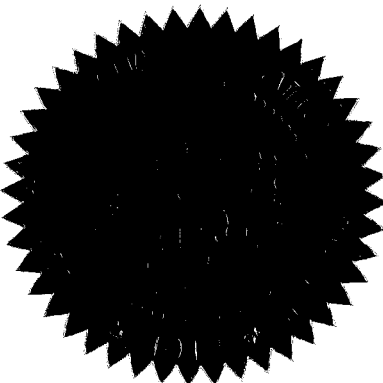
CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 18th day of April 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT

DISSENT

BM:tv

1 SERVICE LIST FOR: SANDARIO WATER COMPANY, INC.
2 DOCKET NOS. W-01831A-12-0392 and W-01831A-12-0467
3
4 Steve Wene, Esq.
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9 Bonnie O'Connor, Manager
10 SANDARIO WATER COMPANY, INC.
11 c/o Southwestern Utility Management, Inc.
12 P. O. Box 85160
13 Tucson, AZ 85754
14
15 Janice Alward, Chief Counsel
16 Legal Division
17 ARIZONA CORPORATION COMMISSION
18 1200 West Washington Street
19 Phoenix, AZ 85007
20
21 Steven M. Olea, Director
22 Utilities Division
23 ARIZONA CORPORATION COMMISSION
24 1200 West Washington Street
25 Phoenix, AZ 85007
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27
28

EXHIBIT A

Depreciation Rates (Sandario)

Acct. No.	Depreciable Plant	Approved Rate (%) (Decision # 58992) *	Proposed Rate (%)	Staff Recommended Rate (%)
301	Organization		n/a	0
302	franchises		n/a	0
303	Land & Land Rights		n/a	0
304	Structures & Improvements	4.5	3.33	3.33
305	Collecting & Impounding Reservoirs	4.5	n/a	2.50
306	Lake, River, Canal Intakes	4.5	n/a	2.50
307	Wells & Springs	4.5	3.33	3.33
308	Infiltration Galleries	4.5	n/a	6.67
309	Raw Water Supply Mains	4.5	n/a	2.00
310	Power Generation Equipment	4.5	n/a	5.00
311	Pumping Equipment	4.5	12.50	12.5
320	Water Treatment Equipment	4.5		
320.1	Water Treatment Plants	4.5	3.33	3.33
320.2	Solution Chemical Feeders	4.5	20.00	20.0
330	Distribution Reservoirs & Standpipes	4.5	5.00	
330.1	Storage Tanks	4.5	2.22	2.22
330.2	Pressure Tanks	4.5	5.00	5.00
331	Transmission & Distribution Mains	4.5	2.00	2.00
333	Services	4.5	3.33	3.33
334	Meters	4.5	8.33	8.33
335	Hydrants	4.5	2.00	2.00
336	Backflow Prevention Devices	4.5	6.67	6.67
339	Other Plant & Misc Equipment	4.5	6.67	6.67
340	Office Furniture & Equipment	4.5	6.67	6.67
340.1	Computers & Software	4.5	20.00	20.00
341	Transportation Equipment	4.5	20.00	20.00
342	Stores Equipment	4.5	n/a	4.00
343	Tools, Shop & Garage Equipment	4.5	5.00	5.00
344	Laboratory Equipment	4.5	10.00	10.00
345	Power Operated Equipment	4.5	5.00	5.00
346	Communication Equipment	4.5	10.00	10.00
347	Miscellaneous Equipment	4.5	10.00	10.00
348	Other Tangible Plant	4.5	5.00	---

Note: * Although in Decision 58992, the approved depreciation rate was not specified, Staff used the information in approved Staff Report for the Company's rate application (Docket # U-1831-94-420), Staff calculated the approved depreciation rate in Decision 58992 was 4.5%. Staff's calculation is based on approved Adjusted Plant cost of \$391,627 (in Schedule 2) and approved Adjusted Depreciation value of \$17,624 (Schedule 1). When \$17,624 is divided by \$391,627, Staff got a 4.5% depreciation rate.